

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Otsego County Road Commission	County Otsego
Audit Date 12/31/04	Opinion Date 5/20/05	Date Accountant Report Submitted to State: 6/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

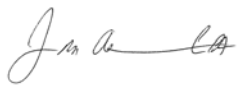
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Anderson & Decker, P.C.			
Street Address P.O. Box 746	Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, c=US, o=Anderson & Decker, PC, email=jma@m33access.com Date: 2005.06.28 07:57:22 -04'00'	City Roscommon	State MI
Accountant Signature 		ZIP 48653	Date 6/28/05

**OTSEGO COUNTY ROAD COMMISSION
FINANCIAL REPORT
DECEMBER 31, 2004**

OTSEGO COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Eugene S. Fleming
Chairman

John R. Deming
Vice Chairman

Donald R. Huff
Member

Michael A. Roper
Managing Director

Roberta M. Tholl
Office Manager

OTSEGO COUNTY ROAD COMMISSION

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Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

May 20, 2005

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

We have audited the accompanying basic financial statements of the Otsego County Road Commission of the County of Otsego, Michigan as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Otsego County Road Commission as of December 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2005, on our consideration of the Otsego County Road Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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Board of County Road Commissioners
Otsego County Road Commission
May 20, 2005

The management's discussion and analysis are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Otsego County Road Commission. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

**OTSEGO COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004**

USING THIS ANNUAL REPORT

The Otsego County Road Commission's discussion and analysis is designed to: (a) assist the reader in focusing on significant financial issues; (b) provide an overview of the road commission's financial activity; (c) identify changes in the road commission's financial position (its ability to address the next and subsequent year challenges); (d) identify any material deviations from the approved budget; and (e) identify any issues or concerns.

REPORTING THE ROAD COMMISSION AS A WHOLE

The statement of net assets and the statement of activities report information about the commission as a whole and about its activities in a way that helps answer the question on whether the road commission as a whole is better off or worse off as of a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method, used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the road commission's net assets and the changes in them. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating.

REPORTING THE ROAD COMMISSION'S MAJOR FUND

Our analysis of the road commission's major fund begins on page 4. The fund financial statements begin on page 9 and provide detailed information about the major fund. The road commission currently has only one fund, the general operations fund, in which all of the road commission's activities are accounted. The general operations fund is a governmental type.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004
(CONTINUED)

THE ROAD COMMISSION AS A WHOLE

The road commission's net assets decreased \$51,160 or approximately 0.3% for the year ended December 31, 2004. The net assets and change in net assets are summarized below.

Net assets as of the year ended December 31, 2003 and 2004 follows:

	<u>Governmental Activities</u>	
	<u>2003</u>	<u>2004</u>
Current and Other Assets	\$ 2,153,573	\$ 2,179,921
Capital Assets (Less Depre.)	<u>13,979,073</u>	<u>14,038,354</u>
Total Assets	<u>16,132,646</u>	<u>16,218,275</u>
Current Liabilities	393,325	377,809
Other Liabilities	<u>107,019</u>	<u>259,324</u>
Total Liabilities	<u>500,344</u>	<u>637,133</u>
Net Assets		
Invested in Capital Assets	13,927,962	13,840,409
Unrestricted	<u>1,704,340</u>	<u>1,740,733</u>
Total Net Assets	<u>\$ 15,632,302</u>	<u>\$ 15,581,142</u>

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004
(CONTINUED)

A summary of changes in net assets for the year ended December 31, 2003 and 2004 follows:

	Governmental Activities	
	2003	2004
Program Revenues:		
Charges for Services (includes permits)	\$ 1,150,944	\$ 1,196,682
Federal Sources	757,073	386,610
State Sources	3,523,419	4,245,971
Contributions from local units	133,424	506,221
Interest Income	12,536	9,544
General Revenues:		
Gain on Disposal of Equipment	91,671	97,516
Other Miscellaneous Sources	<u>101,782</u>	<u>54,378</u>
Total Revenues	<u>5,770,849</u>	<u>6,496,922</u>
Program Expenses:		
Primary Roads:		
Maintenance	1,509,363	1,787,896
Local Roads:		
Maintenance	1,838,419	1,777,982
State Trunkline:		
Maintenance	1,083,005	1,198,580
Non-maintenance	15,718	105,778
Equipment Expense	(297,578)	(411,531)
Administrative	270,375	290,458
Infrastructure depreciation	1,548,100	1,789,854
Compensated Absences	6,177	5,471
Interest	<u>4,166</u>	<u>3,594</u>
Total Expenses	<u>5,977,745</u>	<u>6,548,082</u>
Increase (Decrease) in Net Assets	<u>\$ (206,896)</u>	<u>\$ (51,160)</u>

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004
(CONTINUED)

THE ROAD COMMISSION'S FUND

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2004, the fund balance of the general operations fund increased by \$41,864 as compared to a decrease of \$400,101 in the fund balance for the year ended December 31, 2003 (last year). Total revenues were \$6,496,922, an increase of \$726,073 as compared to last year. This change in revenues resulted primarily from the increase in Michigan Transportation Funds due to the new permanent trailer plates, our inclusion in urban funds and borrowing for three new trucks in 2004.

Total expenditures were \$6,683,131, an increase of \$512,181, as compared to last year. This change in expenditures is primarily due to the purchase of the three new trucks, increased diesel fuel cost, insurance costs and general material cost increases realized.

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year. The revenue budget for 2004 was higher than the actual receipts by \$159,451. Federal and State aid was higher than expected, partly due to help on a new salt building.

Road Commission expenditures were projected as \$6,598,366 while actual expenditures were \$6,683,130. This resulted in total expenditures being over budget by \$84,764. The extra expenses have also been due in part to our share of the salt building. Also, because the budget is amended by Board Action, unless a board meeting were to be held on December 31st of a year, it is not possible to know about sudden storm or, for that matter, lack of a storm at year end which can drastically change the final figures of maintenance for that year.

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004
(CONTINUED)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2004 (year end), the road commission had \$14,038,354 invested in capital assets as follows:

	<u>2003</u>	<u>2004</u>
Capital Assets Not Being Depreciated		
Land and Improvements	\$ 150,600	\$ 154,971
Other Capital Assets		
Buildings and Improvements	2,553,124	2,995,570
Road Equipment	4,707,536	4,951,933
Other Equipment	204,860	210,123
Infrastructure and Improvements	<u>20,712,152</u>	<u>22,141,682</u>
Total Capital Assets at Historic Cost	28,328,272	30,454,279
Total Accumulated Depreciation	<u>(14,349,199)</u>	<u>(16,415,925)</u>
Total Net Capital Assets	<u>\$ 13,979,073</u>	<u>\$ 14,038,354</u>

Current year's major additions included the following:

Salt Shed (project started)	\$ 166,681	\$ 442,446
Various Projects (Primary and Local)	\$ 1,584,744	\$ 1,433,901
Trucks/Equipment	\$ 426,177	\$ 503,080

DEBT

A new instalment loan was taken for the purchase of three trucks totaling \$228,073. This will be paid by 36 payments of \$6,624.60 per month.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The board of county road commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy. The road commission derives approximately 60% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Funds to be distributed.

Also, the short term gain to the MTF as a result of the permanent trailer license plate fee will change to a decrease this year as no new revenue will be seen except on new or transferred trailers.

The board realized, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Otsego County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interests of the motoring public and the citizens of Otsego County.

OTSEGO COUNTY ROAD COMMISSION
MANAGEMENTS'S DISCUSSION & ANALYSIS
DECEMBER 31, 2004
(CONTINUED)

CONTACTING THE ROAD COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Otsego County Road Commission administrative offices at 669 W. McCoy Road, P.O. Box 537, Gaylord MI 49734-0537.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

ASSETS

Cash and Investments	\$ 881,649
Accounts receivable	
Due from other governmental units	781,235
Sundry	2,350
Inventories	514,687
Capital Assets (Net of Accumulated Depreciation)	<u>14,038,354</u>
Total Assets	<u>16,218,275</u>

LIABILITIES

Current Liabilities	
Accounts payable	7,844
Accrued liabilities	93,285
Advances from MDOT	276,680
Non Current Liabilities	
Equipment Installment Loan	197,945
Vested Employee Benefits Payable	<u>61,379</u>
Total Liabilities	<u>637,133</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	13,840,409
Restricted for County Roads	<u>1,740,733</u>
Total Net Assets	<u><u>\$ 15,581,142</u></u>

See accompanying notes to the basic financial statements.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Program Expenses	
Primary Road Maintenance	\$ 1,787,896
Local Road Maintenance	1,777,982
State Trunkline Maintenance	1,304,358
Net Equipment Expense	(411,531)
Net Administrative Expense	290,458
Infrastructure Depreciation	1,789,854
Compensated Absences	5,471
Interest Expense	<u>3,594</u>
Total Program Expenses	<u>6,548,082</u>
Program Revenue	
Federal Grants	386,610
State Grants	4,245,971
Contributions from Local Units	506,221
Charges for Services	1,196,682
Investment Earnings	<u>63,922</u>
Total Program Revenue	<u>6,399,406</u>
Net Program Revenue	<u>(148,676)</u>
General Revenue	
Gain (Loss) on Equipment Disposal	<u>97,516</u>
Total General Revenues	<u>91,516</u>
Change in Net Assets	(51,160)
Net Assets	
Beginning of Year	<u>15,632,302</u>
End of Year	<u><u>\$ 15,581,142</u></u>

See accompanying notes to the basic financial statements.

OTSEGO COUNTY ROAD COMMISSION
BALANCE SHEET
DECEMBER 31, 2004

	Governmental <u>Fund Type</u> General <u>Operating</u>
ASSETS	
Cash demand and investments	\$ 881,649
Accounts receivable:	
Due from other governmental units	781,235
Sundry	2,350
Inventories	<u>514,687</u>
Total Assets	<u><u>\$ 2,179,921</u></u>
LIABILITIES AND FUND EQUITY	
Accounts payable	\$ 7,844
Accrued liabilities	93,285
Advances from governmental units	<u>276,680</u>
Total Liabilities	<u>377,809</u>
Fund Equity:	
Fund Balance:	
Undesignated	<u>1,802,112</u>
Total Fund Equity	<u>1,802,112</u>
Total Liabilities and Fund Equity	<u><u>\$ 2,179,921</u></u>

See accompanying notes to the basic financial statements.

OTSEGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE TO
THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Total governmental fund balance	\$ 1,802,112
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Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,038,354
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Other long-term assets are not available to pay for current period expenditures and therefore are not reported in the funds.	<u>(259,324)</u>
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Net assets of governmental activities	<u><u>\$ 15,581,142</u></u>
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See accompanying notes to the basic financial statements.

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
DECEMBER 31, 2004

	<u>Operating Fund</u>
Revenues	
Federal Grants	\$ 386,610
State Grants	4,245,971
Contributions From Local Units	506,221
Charges for Services	1,196,682
Interest and Rents	63,922
Other Revenue	<u>97,516</u>
Total Revenues	<u>6,496,922</u>
Expenditures	
Public Works	6,176,606
Net Capital Outlay	421,692
Debt Service	<u>84,833</u>
Total Expenditures	<u>6,683,131</u>
Excess of Revenues Over (Under) Expenditures	(186,209)
Other Financing Sources:	
Installment Loan Proceeds	<u>228,073</u>
Total Other Financing Sources	<u>228,073</u>
Excess of Revenue and Other Financing Sources over (under) Expenditure	41,864
Fund Balance-January 1, 2004	<u>1,760,248</u>
Fund Balance-December 31, 2004	<u><u>\$ 1,802,112</u></u>

See accompanying notes to the basic financial statements.

OTSEGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in fund balance-total governmental funds	\$ 41,864
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Amounts reported for governmental activities
in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the statement of activities.	59,281
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Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the statement of net assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the statement of net assets.	(146,834)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense).	<div style="border-top: 1px solid black; display: inline-block; width: 100%;">(5,471)</div>
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Change in net assets of governmental activities.	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; width: 100%;">\$ (51,160)</div>
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See accompanying notes to the basic financial statements.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Otsego County Road Commission conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

DESCRIPTION OF ROAD COMMISSION OPERATIONS - The Otsego County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Otsego, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal financial assistance, reimbursements from the Department of State Highways for work performed by the County on State trunkline and contributions from other local units of government for work performed by the Road Commission work force.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. A different Road Commissioner is elected biannually to serve a six year term.

FINANCIAL REPORTING ENTITY - The Road Commission is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this State requirement.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity" for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Otsego County Road Commission, a discretely presented component unit of Otsego County, and include the basic financial statements of the Road Commission

BASIS OF PRESENTATION-GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all the Otsego County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) changes to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BASIS OF PRESENTATION—FUND FINANCIAL STATEMENTS

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year of which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: charges to customer or applicants for goods or services or privileges provided; Michigan transportation funds; and State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING—FUND FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law.

CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less within acquired. Investments are stated at fair value.

INVENTORY - Inventories consisting of equipment parts and supplies of \$135,407 and road materials of \$379,280, are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are recorded at average cost which approximates market.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Otsego County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Otsego County Road Commission has capitalized the current year's infrastructure, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The Road Commission has retroactively capitalized the major infrastructure assets as of December 31, 2003, as permitted by GASB 34.

ADVANCES FROM THE STATE OF MICHIGAN - The State of Michigan advances funds on a State maintenance agreement it has with the Otsego County Road Commission for specified maintenance which the Road Commission will perform during the year and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCRUED VACATION AND SICK - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts.

EQUIPMENT RENTALS - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is deducted from equipment expenditures for the Statement of Revenues, Expenditures, and Changes in Fund Balance.

DEPRECIATION - Depreciation is computed on the sum-of-the-years-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure-Roads	8 to 30 years
Infrastructure-Bridges	12 to 50 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in operating fund statement of net assets.

ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Cash demand and time deposits	\$ 881,649	Imprest Cash	\$ 5,300
		Savings	876,349
	<u>\$ 881,649</u>		<u>\$ 881,649</u>

1) Deposits - At year-end the carrying amount (bank balance) of the County Road Commission's deposits was \$921,823. Of this balance, \$876,349 was included in the common bank account managed by the County Treasurer and accordingly the level of FDIC insurance on this amount is not determinable. The balance of the carrying amount, \$45,474 or 4.9% of the total, is insured under the FDIC program.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE C - CAPITAL ASSETS

The following is a summary of changes in the Capital Assets Account Group.

	<u>Balance 1/01/04</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/04</u>
Capital Assets Not Being Depreciated:				
Land and Improvements	\$ 150,600	\$ 4,371	\$ -0-	\$ 154,971
Subtotal	<u>150,600</u>	<u>4,371</u>	<u>-0-</u>	<u>154,971</u>
Capital Assets Being Depreciated:				
Buildings	2,553,124	442,446	-0-	2,995,570
Road Equipment	4,707,536	496,022	251,625	4,951,933
Shop Equipment	105,578	6,060	1,795	109,843
Office Equipment	76,876	998	-0-	77,874
Engineers Equipment	15,846	-0-	-0-	15,846
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Depletable Assets	4,760	-0-	-0-	4,760
Traffic Signals	44,756	-0-	-0-	44,756
Infrastructure-Bridges	805,533	-0-	-0-	805,533
Infrastructure-Roads	<u>19,861,863</u>	<u>1,429,530</u>	<u>-0-</u>	<u>21,291,393</u>
Total	<u>28,177,672</u>	<u>2,375,056</u>	<u>253,420</u>	<u>30,299,308</u>
Less Accumulated Depreciation:				
Buildings	814,586	56,409	-0-	870,995
Road Equipment	3,597,942	436,783	228,137	3,806,588
Shop Equipment	74,390	8,668	1,795	81,263
Office Equipment	59,776	4,792	-0-	64,568
Engineers Equipment	15,606	152	-0-	15,758
Yard & Storage Equipment	1,800	-0-	-0-	1,800
Traffic Signals	5,173	2,984	-0-	8,157
Infrastructure-Bridges	125,369	27,922	-0-	153,291
Infrastructure-Roads	<u>9,654,557</u>	<u>1,758,948</u>	<u>-0-</u>	<u>11,413,505</u>
Total	<u>14,349,199</u>	<u>2,296,658</u>	<u>229,932</u>	<u>16,415,925</u>
Net Capital Assets Being Depreciated	<u>13,828,473</u>	<u>78,398</u>	<u>23,488</u>	<u>13,883,383</u>
Total Net Capital Assets	<u>\$13,979,073</u>	<u>\$ 82,769</u>	<u>\$ 23,488</u>	<u>\$14,038,354</u>

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE D - PENSION PLAN

DEFINED BENEFIT PENSION PLAN

Plan Description - The Otsego County Road Commission participates in a defined benefit retirement plan administered by the Municipal Employee's Retirement System (MERS). The plan covers substantially all full-time employees.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401 (a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the tax payers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

All full-time Road Commission employees and Commissioners are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 60 with 10 years credited service are entitled to an annual retirement benefit, payable monthly for life in an amount equal to 2.0 percent of the member's five-year final average compensation. The system also provides death and disability benefits which are established by State Statute.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE D - PENSION PLAN (CONTINUED)

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an actuarial valuation of the plan as of December 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 3,370,963
Terminated employees not yet receiving benefits	100,805
Current Employees:	
Accumulated employees contributions including	
Allocated investment income	68,949
Employer financed	<u>3,242,742</u>
Total actuarial accrued liability	6,783,459
Net assets available for benefits, at actuarial value	
(Market value is \$5,016,335)	<u>5,493,694</u>
Unfunded (over funded) actuarial accrued liability	<u>\$ 1,289,765</u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 1, 2005
Annual required contribution (ARC)	\$ 195,468
Amortization factor used	0.053632

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE D RETIREMENT PLAN (CONTINUED)

Contributions Required and Contributions Made - MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2003 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years. The following table provides a schedule of contribution amounts and percentages for recent years.

Annual Pension Cost

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 109,152	100%	\$ -0-
2002	169,068	100%	-0-
2003	195,468	100%	-0-

The Road Commission was required to contribute \$196,936 for the year ended December 31, 2004. Payments were based on contribution calculations made by MERS.

Aggregate Accrued Liabilities - Comparative Schedule

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2001	\$ 5,319,357	\$ 5,570,544	\$ 251,187	95%	\$ 1,421,351	18%
2002	5,304,571	6,320,484	1,015,913	84%	1,492,215	68%
2003	5,493,694	6,783,459	1,289,765	81%	1,568,776	82%

For actuarial valuation purposes, the actuarial value of assets is determined on the basis of a calculation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value.

Actuarial assumptions for MERS valuations were revised for the 1993, 1997, 2000, and 2002 valuations.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract.

NOTE F - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

	Balance 12/31/03	Additions	Reductions	Balance 12/31/04
General Obligation:				
Lease purchase - equipment	\$ 51,111	\$ -0-	\$ 51,111	\$ -0-
Equipment Installment Loan	-0-	228,073	30,128	197,945
Compensated absences	55,908	(1) 5,471	-0-	61,379
Total	<u>\$ 107,019</u>	<u>\$ 233,544</u>	<u>\$ 81,239</u>	<u>\$ 259,324</u>

(1) The change in compensated absences is shown as a net addition.

The Road Commission entered into a lease-purchase agreement for the purchase of road equipment on June 6, 2001. The initial debt was \$291,996 with interest accruing at 3.98%. The lease agreement required 36 payments of \$8,618.29 per month with the final payment due on June 6, 2004.

The Road Commission entered into an installment loan with Fifth Third Bank for the purchase of three International trucks on July 6, 2004. The initial debt was \$228,073 with interest accruing at 2.92%. The equipment installment agreement requires 36 payments of \$6,624.60 per month with the final payment due on July 6, 2007.

Annual Debt Service Requirements:	Principal	Interest	Total
2005	\$ 74,721	\$ 4,774	\$ 79,495
2006	76,932	2,563	79,495
2007	46,292	81	46,373
Totals	<u>\$ 197,945</u>	<u>\$ 7,418</u>	<u>\$ 205,363</u>

Substantially all employees of the Road Commission can accumulate vacation hours. The accumulated hours at December 31, 2004 at current wage rates amounted to \$61,379 and is reflected in the Long-Term Debt Group. Sick leave is not vested and accordingly is not accrued.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE G - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2004 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Heavy maintenance	\$ 676,243	\$ 1,075,398	\$ (399,155)
Local Road:			
Heavy maintenance	\$ 336,234	\$ 358,503	\$ (22,269)
Maintenance	\$ 1,712,027	\$ 1,777,982	\$ (65,955)
Administrative Expense - Net	\$ 290,183	\$ 290,458	\$ (275)
Capital outlay - net	\$ 375,450	\$ 421,692	\$ (46,242)
Interest Expenditures	\$ 3,517	\$ 3,594	\$ (77)

NOTE H - RISK MANAGEMENT

Otsego County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Otsego Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

At December 31, 2004, there were no claims which exceeded insurance coverage. The Road Commission had no significant reduction in insurance coverage from the previous years.

OTSEGO COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004
(CONTINUED)

NOTE I - FEDERAL FINANCIAL ASSISTANCE

It is required by the Michigan Department of Transportation that Road Commissioners report total federal financial assistance for Highway Research, Planning and construction pertaining to their County. However, only the federal financial assistance applicable to negotiated account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by the Michigan Department of Transportation.

The federal revenue of \$386,610 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects where work was performed by independent contractors or under non-negotiated contracts between the Road Commission and the Michigan Department of Transportation.

NOTE J - POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note D, the County Road Commission provides post retirement health care benefits, payment of Blue Cross health premiums, to 25 people who have retired from the Road Commission. The premiums for the retirees amounted to \$209,586 for the year ended December 31, 2004.

REQUIRED SUPPLEMENTAL INFORMATION

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2004

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Michigan Transportation Funds:				
Primary road	\$	\$	\$ 2,228,932	\$
Local road			1,318,971	
Snow removal			228,271	
Engineering			10,000	
Subtotal	<u>(1)3,580,000</u>	<u>(1)3,827,852</u>	<u>3,786,174</u>	<u>(41,678)</u>
Federal Aid:				
Federal aid secondary	1,047,185	170,883	386,610	215,727
State Capital Grant	-0-	424,907	374,687	(50,220)
State Forest Road Funds	-0-	-0-	85,110	85,110
State Trunkline Maintenance	860,000	1,235,633	1,080,521	(155,112)
County Raised Funds:				
Township contributions and other contributions	532,581	631,490	636,726	5,236
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	97,516	97,516
Interest, Salvage Sales, Permits and Refunds	<u>66,000</u>	<u>46,606</u>	<u>49,578</u>	<u>2,972</u>
Total Revenue	<u>6,085,766</u>	<u>6,337,371</u>	<u>6,496,922</u>	<u>159,551</u>
Other Financing Sources:				
Equipment Installment Loan Proceeds	<u>230,000</u>	<u>228,173</u>	<u>228,073</u>	<u>(100)</u>
Total Other Financing Sources	<u>230,000</u>	<u>228,173</u>	<u>228,073</u>	<u>(100)</u>
Total Revenue and Other Financing Sources	<u>\$ 6,315,766</u>	<u>\$ 6,565,544</u>	<u>\$ 6,724,995</u>	<u>\$ 159,451</u>

(1) Budgeted in Total

OTSEGO COUNTY ROAD COMMISSION
STATEMENT OF EXPENDITURES -
BUDGETARY COMPARISON SCHEDULE
TWELVE MONTHS ENDED DECEMBER 31, 2004

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road:				
Heavy maintenance	\$ 876,000	\$ 676,243	\$ 1,075,398	\$ (399,155)
Maintenance	1,500,000	1,967,274	1,781,438	185,836
Local Road:				
Heavy maintenance	424,442	336,234	358,503	(22,269)
Maintenance	1,840,000	1,712,027	1,777,982	(65,955)
Subtotal	4,640,442	4,691,778	4,993,321	(301,543)
State Trunkline Maintenance	1,100,000	1,471,220	1,304,358	166,862
Equipment Expense - Net:				
Direct	1,100,000	912,294	922,330	(10,036)
Indirect	470,000	410,071	427,039	(16,968)
Operating	200,000	238,168	216,976	21,192
Less:				
Equipment Rental	(1,900,000)	(1,875,636)	(1,977,876)	102,240
Subtotal	(130,000)	(315,103)	(411,531)	96,428
Administrative Expense - Net:				
Administrative expense			415,308	
Less:				
Overhead - State				
trunkline			(124,512)	
Purchase discounts and				
Handling Charges			(338)	
Subtotal	(1) 335,000	(1) 290,183	290,458	(275)
Capital Outlay - Net:				
Capital Outlay	747,820	934,370	945,526	(11,156)
Less:				
Depreciation	(605,000)	(558,920)	(500,345)	(58,575)
Equipment retirements	-0-	-0-	(23,489)	23,489
Subtotal	142,820	375,450	421,692	(46,242)
Long-Term Debt Payments	89,334	81,321	81,239	82
Interest Expenditures	1,285	3,517	3,594	(77)
Total Expenditures	\$ 6,178,881	\$ 6,598,366	\$ 6,683,131	\$ (84,765)
(1) Budgeted in total				

See Notes to Financial Statements

SUPPLEMENTAL SCHEDULES

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES OF FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>	<u>Totals</u>
Total Revenues and other Financing Sources	\$ 2,911,037	\$ 1,861,306	\$ 1,952,652	\$ 6,724,995
Total Expenditures	<u>2,807,497</u>	<u>2,080,348</u>	<u>1,795,286</u>	<u>6,683,131</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures before Optional Transfers	103,540	(219,042)	157,366	41,864
Optional Transfers / Adjustments	<u>(219,042)</u>	<u>219,042</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures After Transfers	(115,502)	-0-	157,366	41,864
Fund Balance - January 1	<u>1,373,857</u>	<u>-0-</u>	<u>386,391</u>	<u>1,760,248</u>
Fund Balance - December 31	<u><u>\$ 1,258,355</u></u>	<u><u>\$ -0-</u></u>	<u><u>\$ 543,757</u></u>	<u><u>\$ 1,802,112</u></u>

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Motor Vehicle Highway Funds:				
Primary road	\$ 2,228,932	\$ -0-	\$ -0-	\$ 2,228,932
Local road	-0-	1,318,971	-0-	1,318,971
Snow removal	-0-	228,271	-0-	228,271
Engineering	<u>5,903</u>	<u>4,097</u>	<u>-0-</u>	<u>10,000</u>
Subtotal	<u>2,234,835</u>	<u>1,551,339</u>	<u>-0-</u>	<u>3,786,174</u>
Federal Aid:				
Federal Aid Secondary	375,000	11,610	-0-	386,610
State Capital Grant	-0-	-0-	374,687	374,687
State Forest Road Funds	64,124	20,986	-0-	85,110
State Trunkline Maintenance	-0-	-0-	1,080,521	1,080,521
County Raised Funds:				
Township contributions and other contributions	228,850	277,371	130,505	636,726
Other Revenue:				
Gain on Sale of Equipment	-0-	-0-	97,516	97,516
Interest, Salvage Sales, Permits and Refunds	<u>8,228</u>	<u>-0-</u>	<u>41,350</u>	<u>49,578</u>
Total Revenue	<u>2,911,037</u>	<u>1,861,306</u>	<u>1,724,579</u>	<u>6,496,922</u>
Other Financing Sources:				
Equipment Installment Loan Proceeds	<u>-0-</u>	<u>-0-</u>	<u>228,073</u>	<u>228,073</u>
Total Other Financing Sources	<u>-0-</u>	<u>-0-</u>	<u>228,073</u>	<u>228,073</u>
Total Revenue and Other Financing Sources	<u>\$ 2,911,037</u>	<u>\$ 1,861,306</u>	<u>\$ 1,952,652</u>	<u>\$ 6,724,995</u>

OTSEGO COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Fund	Totals
Primary Road:				
Heavy maintenance	\$ 1,075,398	\$ -0-	\$ -0-	\$ 1,075,398
Maintenance	1,781,438	-0-	-0-	1,781,438
Local Road:				
Heavy maintenance	-0-	358,503	-0-	358,503
Maintenance	-0-	1,777,982	-0-	1,777,982
Subtotal	2,856,836	2,136,485	-0-	4,993,321
State Trunkline Maintenance	-0-	-0-	1,304,358	1,304,358
Equipment Expense - Net:				
Direct	483,025	404,349	34,956	922,330
Indirect	223,641	187,214	16,184	427,039
Operating	113,630	95,122	8,224	216,976
Less:				
Equipment Rental	(1,035,815)	(867,100)	(74,961)	(1,977,876)
Subtotal	(215,519)	(180,415)	(15,597)	(411,531)
Administrative Expense - Net:				
Administrative expense	237,611	177,697	-0-	415,308
Less:				
Overhead - State trunkline	(71,237)	(53,275)	-0-	(124,512)
Purchase discounts and Handling charges	(194)	(144)	-0-	(338)
Subtotal	166,180	124,278	-0-	290,458
Capital Outlay - Net:				
Capital Outlay	-0-	-0-	945,526	945,526
Less:				
Depreciation	-0-	-0-	(500,345)	(500,345)
Equipment retirements	-0-	-0-	(23,489)	(23,489)
Subtotal	-0-	-0-	421,692	421,692
Long-Term Debt Payments	-0-	-0-	81,239	81,239
Interest Expense	-0-	-0-	3,594	3,594
Total Expenditures	<u>\$ 2,807,497</u>	<u>\$ 2,080,348</u>	<u>\$ 1,795,286</u>	<u>\$ 6,683,131</u>



Anderson & Decker, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

May 20, 2005

Board of County Road Commissioners
Otsego County Road Commission
Gaylord, MI 49734

We have audited the financial statements of the Otsego County Road Commission as of and for the year ended December 31, 2004, and have issued our report thereon dated May 20, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.


Internal Control over Financial Reporting

In planning and performing our audit, we considered the Otsego County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Otsego County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Board of County Road Commissioners, management, and the Michigan Department of Transportation, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "J. Anderson".

ANDERSON & DECKER, P.C.
CERTIFIED PUBLIC ACCOUNTANTS